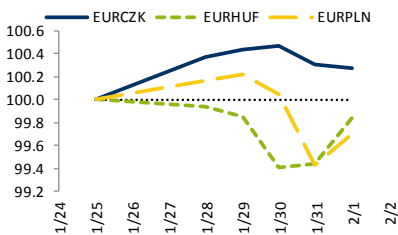




**Central Europe**  
Friday

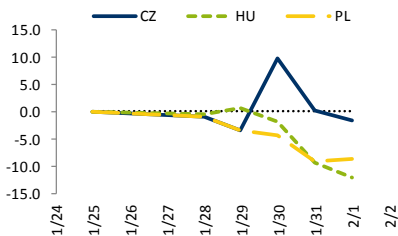
**Friday, 01 February 2019**

**Forex markets (index)**



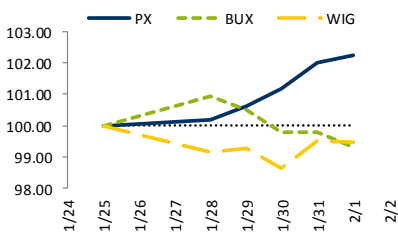
	LAST	PREVIOUS	CHANGE (%)
EURCZK	25.74	25.75	-0.03
EURHUF	317.1	315.9	0.40
EURPLN	4.274	4.262	0.27

**Gov. bonds 10 Y (bps change)**



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	1.781	1.799	-1.8
HUGB 10Y	2.71	2.74	-1.0
PLGB 10Y	2.72	2.72	0.2

**Equity indices (index)**



	LAST	PREVIOUS	CHANGE (%)
PX	1046.2	1043.6	0.26
BUX	40672	40856	-0.45
WIG	60350	60367	-0.03

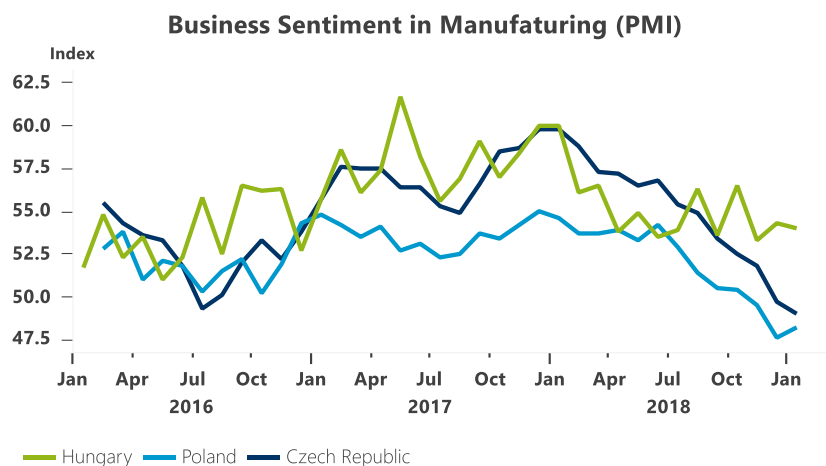
**Regional insights**

**The CNB at the crossroads**

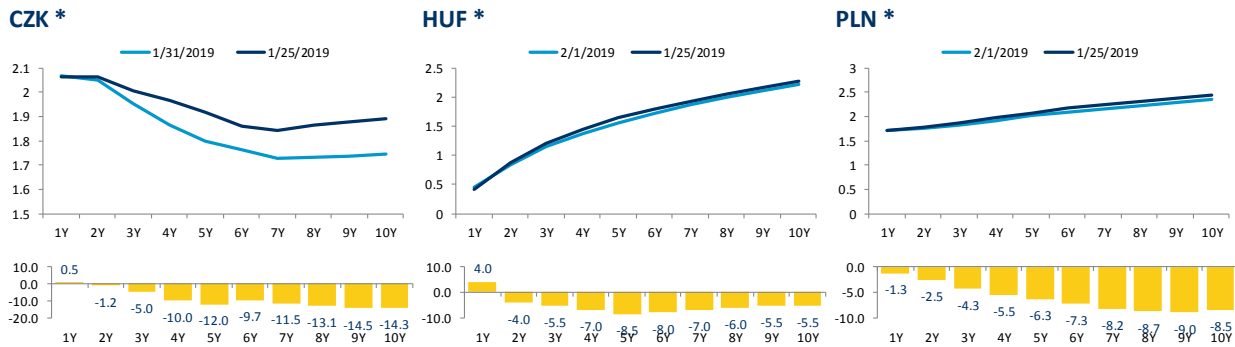
While at the end of the year, the CNB clearly demonstrated its intention to continue in interest rate normalisation, now the Board members increasingly emphasize the external risks that may slow down or even terminate this trajectory. The rhetoric of the Board members has become rather illegible, so it is impossible to predict which opinion shall win at the CNB's February meeting. On the one hand, the rates could be raised on the basis of the weaker koruna. On the other hand, the central bank might choose to wait for the external risks to pass, i.e. the slowing economic momentum in the EU (and Germany in particular), hard Brexit as well as a more cautious approach of the ECB.

The Board members' decision concerning the rates will also be influenced by the new forecast, which, however, no one in fact knows anything about. As is the tradition, the latest one was very optimistic as far as economic growth or the path of the koruna strengthening is concerned. Nonetheless, we can assume that the CNB will start to reassess its forecasts downwards, so the new forecast could convince the undecided Board members to take wait-and-see approach. Therefore, we assume that with respect to the forecast deterioration and the persisting external risks and uncertainties, the CNB will choose to leave the rates unchanged. Thus, the correlation between the strength of the koruna and the interest rate settings, which has been so reliable since the koruna left the exchange rate commitment regime, will not work for some time.

**Czech manufacturing PMI at 6-year low**



## Interest-rate Swap Curves



\* upper plot in each panel shows interest swap curve (%), lower plot shows change in interest rates in basis points (against previous Friday).

## Calendar

Country	Date	Time	Indicator	Period	Forecast		Actual		Consensus		Previous	
					m/m	y/y	m/m	y/y	m/m	y/y	m/m	y/y
HU	02/01	9:00	PMI manufacturing	01/01/2019			54		52.5		54.2	
PL	02/01	9:00	PMI manufacturing	01/01/2019			48.2		48		47.6	
HU	02/01	9:00	Trade balance	EUR M 11/2018 *F			478				496	
CZ	02/01	9:30	PMI manufacturing	01/01/2019			49		49.5		49.7	
CZ	02/01	14:00	Budget balance	CZK B 01/01/2019							2.9	

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